



**Director of
Central
Intelligence**

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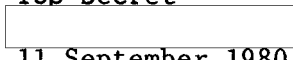
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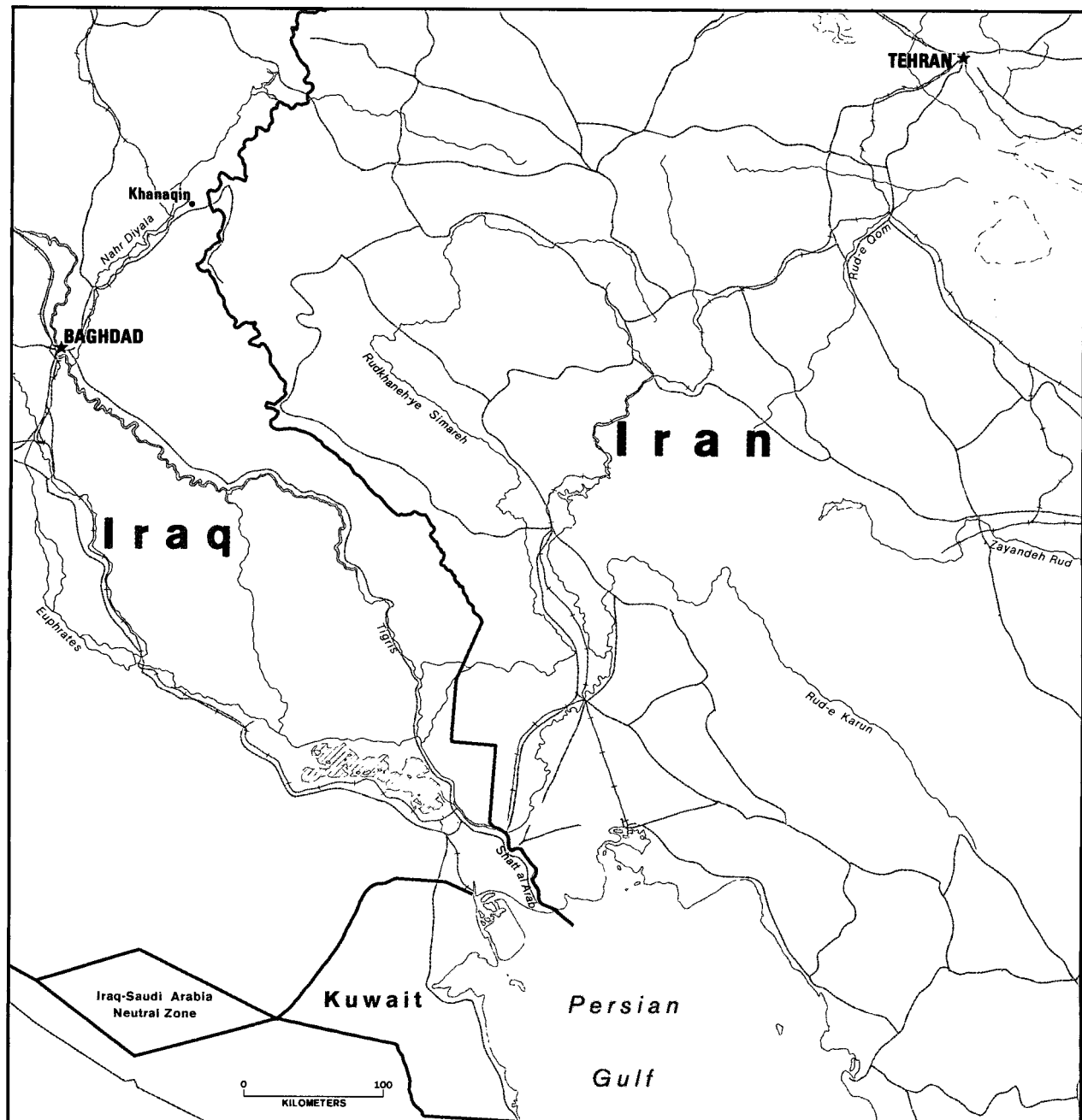
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SITUATION REPORT

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IRAN

The Islamic Consultative Assembly's unexpectedly swift approval of Prime Minister Rajai's partial cabinet list and his government program could pave the way for discussion of approaches to the *hostage issue.* [redacted]

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It is unclear whether Rajai will have to present nominees for the remaining seven cabinet positions before the Assembly can move on to other business. Assembly speaker Rafsanjani said yesterday that the Assembly's Foreign Affairs Committee would present proposals concerning the hostages when it meets on Sunday. [redacted]

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According to the press, these proposals have already been submitted to Rafsanjani. They evidently include the Assembly's response to the recent letter from US Congressmen and a recommendation that the hostage issue be debated in the Assembly as soon as possible. [redacted]

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Even if the hostage issue is taken up by the Assembly, movement on the issue may be delayed by referring the question to a special legislative committee. [redacted]

The clerical hardliners are continuing to press their attack against Bani-Sadr. Rafsanjani accused the President of acting like "the leader of a group opposed to the government," and Ayatollah Beheshti asked Bani-Sadr to name the minority group he has accused of trying to dominate the government. [redacted]

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Iran-Iraq

Iraq appears to be using military force to readjust its border with Iran. Iraq claimed yesterday to have "liberated" a small strip of disputed land southeast of Khanaqin. [redacted]

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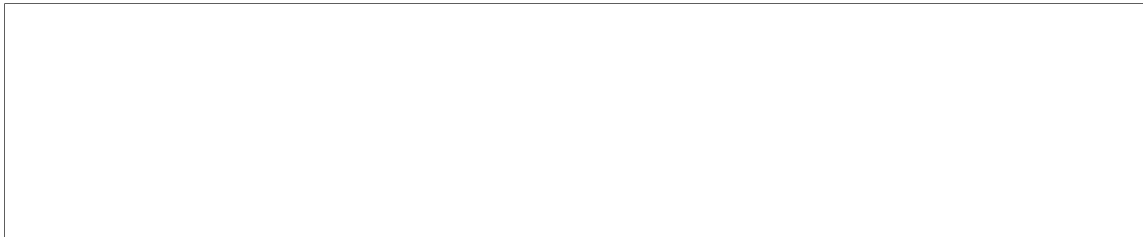
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Soviet Position

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The Soviets have tried not to alienate either Tehran or Baghdad by going very far to support either side.

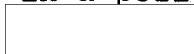
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[redacted] Moscow is attempting to persuade Tehran that only the USSR, presumably through its arms supply relationship with Iraq, is in a position to restrain Baghdad.

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BRIEFS AND COMMENTS

LIBYA-SYRIA: Union Proclaimed

The announcement by the Libyan and Syrian regimes yesterday that they will merge into a single state may result in an institutional facade but not a union with substance.

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Syrian President Assad's visit to Tripoli resulted in an announcement that the two states will form a political, economic, and military union. A joint congress apparently is to be established, but no details on such a reorganization were given.

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Assad sees the merger as a way of reviving the moribund "steadfastness front" as a credible counterweight to US-Egyptian-Israeli negotiations--which Assad believes is essential if occupied Arab territories are to be regained. money is the key ingredient for the Syrians, who are wary of unification.

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The Syrians probably will try to keep the merger alive as long as funds or arms arrive and will agree to a certain amount of window dressing to keep Qadhafi happy. They are likely to balk, however, if Qadhafi insists--as is likely--on effecting some of his ideological principles, such as government by popular committees.

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The Soviets have reacted to the proposed Libyan-Syrian merger with low-key media coverage. This probably reflects both skepticism about the potential of the initiative and some ambivalence about its desirability.

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Moscow would favor increased Libyan financial assistance to Syria to enhance its ability to pay for Soviet-supplied arms and to strengthen Assad's position. The Soviets, however, probably are apprehensive that Qadhafi's radical proclivities and his unpredictability, when combined with Syria's military strength and proximity to Israel, could lead to a conflict in which the USSR could become involved.

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PAKISTAN-IRAN: Declining Relations

Pakistan is showing increased concern over Iran's anti-Pakistan media campaign and Iranian efforts to exploit tensions between President Zia's regime and the Shia community. [REDACTED]

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Last week, Pakistan for the first time publicly criticized Iran for the media attacks. The government-owned press denounced Tehran radio for its recent "tirade" inciting the people of Pakistan and Saudi Arabia to revolt against their governments. Pakistani authorities in Karachi on Monday seized all copies of an official Iranian information magazine because it had published "objectionable" anti-Pakistan material. [REDACTED]

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ROMANIA: Concern Over Unrest

Bucharest's announcement on Tuesday that it is reallocating some defense expenditures to the consumer sector reflects the regime's efforts to head off serious labor unrest in the wake of the disturbances in Poland. [redacted]

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The statement indicated that defense spending will be cut by approximately 15 percent and that other budgeted expenditures will be reduced in order to fund the government's "program of raising the people's standard of living." The rebudgeted funds may be used to raise wages but more likely will be allocated to import additional food and to boost investment in the long-neglected agricultural sector. Worker unrest this summer appears to have been provoked by unusually severe food shortages.

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Transferring funds this late in the year will be difficult, however, and it is possible that the announcement was made for propaganda purposes. Such a cut in military expenditures would have serious implications for Romania's role in the Warsaw Pact, as it runs counter to Soviet efforts to force Pact members to increase their combat readiness. [redacted]

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Bucharest appears determined to prevent major worker unrest, particularly in view of the apparent success of the Polish strike. [redacted]

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[redacted] Last week-end the government inaugurated an unprecedented "horticultural month" celebration that included large supplies of fresh food for Bucharest, and President Ceausescu himself visited the markets. [redacted]

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INTERNATIONAL: IMF Vote Extension

The 10-day extension on Tuesday of the voting deadline on the Palestinian observer issue at the International Monetary Fund and World Bank demonstrates the petroleum and financial leverage of the Palestine Liberation Organization's backers. [REDACTED]

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Lobbying by Saudi Arabia, Kuwait, and Iraq, along with sympathy by some members for the PLO prevented a quorum and made an extension necessary. The Saudis have demonstrated both determination and irritation over this issue. They argue that the US-backed resolutions aimed at blocking PLO observer status are a breach of IMF and World Bank regulations and that it is in the best interests of members to avoid taking a stand on conflicting interpretations of regulations. [REDACTED]

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CHILE: Constitutional Plebiscite

President Pinochet is likely to win today's plebiscite on a new constitution, but the political costs could outweigh the benefits to his military regime. [redacted]

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The election probably will be fair--there was no known fraud in a referendum in 1978. An overwhelmingly favorable vote would lend an aura of legitimacy to the regime for the first time in its seven-year history. The constitution confirms direct military rule until 1989 and gives Pinochet the option of running for an eight-year civilian term at that time. [redacted]

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A convincing vote also would make it easier for Pinochet to ignore foreign critics, including the countries in the Organization of American States that considered sponsoring a resolution protesting the plebiscite. In addition, domestic opposition leaders who have urged a "no" vote would appear discredited. [redacted]

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The referendum, however, also entails serious risks. Some of the regime's supporters believe that if a 60-percent "yes" vote is not obtained, the military would be embarrassed and could demand changes in government policies and personnel. [redacted]

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The newly aroused opposition is trying to use the plebiscite to rally popular discontent. Church-state relations--already strained by recent government repression in response to an upsurge in terrorism--have worsened. Chilean bishops have publicly complained that the plebiscite offers no reasonable alternative to continued military rule if the constitution is rejected. [redacted]

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Even if he wins by a wide margin, Pinochet may eventually regret providing the opposition such a clear target. Unless he takes steps in the next few months to mollify moderate critics while isolating more radical opponents, the plebiscite could prove a hollow victory. Pinochet's past harsh treatment of his detractors, however, raises doubts about his ability to neutralize the opposition. [redacted]

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CYPRUS: Cabinet Shuffle

President Kyprianou's extensive cabinet changes yesterday are aimed at silencing the growing criticism that threatens to cut short his term of office. [redacted]

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Kyprianou has had difficulty managing the internal strains among the major political parties of his coalition. His troubles came to a head earlier this summer when the powerful Communist Party bolted the coalition, charging that he was too inflexible on the terms of a settlement with the Turkish Cypriot minority and overly responsive to rightist pressures. [redacted]

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More recently, Kyprianou's waning prestige and hard, unproductive line in negotiations with the Turkish Cypriots have prompted several deputies in his own center-right Democratic Party to lay the groundwork for forming a rival centrist party. Such a move would deprive Kyprianou of his working majority in parliament. [redacted]

Cyprus has a presidential form of government, and Kyprianou can continue in office for some time without a parliamentary majority. The loss of a majority, however, would significantly reduce his chances of securing the passage of crucial legislation such as the budget and complicate his effort to serve out the remaining three years of his five-year term. [redacted]

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The cabinet shuffle is designed to head off this longer term threat to his tenure. By dumping his Communist-supported education minister and appointing a more centrist-oriented cabinet, Kyprianou defied his former allies and tried to placate opponents within his own party. In retaining his moderate foreign minister who has advocated more flexibility in the intercommunal talks, he signaled that he may be prepared to be more accommodative in the new round of talks between Greek and Turkish Cypriots set to resume next week. [redacted]

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The President's tactics, however, may not succeed. The initial reaction to the cabinet changes suggests that Kyprianou has further angered both his Communist and rightist critics while failing to win over those in his party who oppose his leadership. [redacted]

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SOUTH AFRICA: Student Unrest

The potential for racial violence may be building in Port Elizabeth, where black students until recently were boycotting classes. The government yesterday closed local black schools for the year after students and parents ignored an ultimatum to reenroll, and special police have been moved into the city. Several major episodes of racial violence have occurred in Port Elizabeth and other nearby industrial centers in recent years. Meanwhile, press reports of student disorders this week in Kimberly appear greatly exaggerated. Only about 300--not 1,500--black students were involved in demonstrations against the segregated school system. Property damage apparently was minor.

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USSR: Hard Currency Position

Spiraling prices for exports, especially oil, have put the USSR in its strongest hard currency position since the 1960s. The improvement results in part from policy measures introduced three years ago. The hard currency trade picture has allowed the Soviets to halt almost all gold sales, thereby reducing their presence in Western credit markets. Moscow is now able to pay premiums for grain and other embargoed goods and to aid its financially strapped East European allies.

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CANADA: Liberal Party Wins By-Election

Canadian Prime Minister Trudeau's Liberal Party won another seat in Parliament in a by-election on Monday. The contest was the first since the election in February; it was held in the industrial heartland of southern Ontario, traditionally a swing area in federal elections. The win gives Trudeau five seats more than a majority and a modest psychological boost as he wrangles with provinces over constitutional reform. The talks this week with the provincial premiers have thus far made no progress toward finding acceptable compromises on the constitution.

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